

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Independent Auditor's Reports
Financial Statements And
Required Supplementary Information
Schedule of Findings**

December 31, 2011 and 2010

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**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dean Hoffmann	Chairperson	11/4/2013
Marsha Clausen	Vice-Chairperson	11/4/2012
Rick Lohrmann	Secretary	11/4/2014
Keith Kelderman	Director	11/4/2014
Aaron Stangl	Director	11/4/2017
Wendel Kahl	Technical Advisor	Indefinite
Kent Hilsabeck	Interim General Manager	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

March 9, 2012

To the Board of Trustees of the
Manning Municipal Communications
And Television System Utility

I have audited the accompanying financial statements of Manning Municipal Communications and Television System Utility as of December 31, 2011. These financial statements are the responsibility of the Utility's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Manning Municipal Communications and Television System Utility as of December 31, 2010, were audited by other auditors, whose report dated May 20, 2011, expressed an unqualified opinion on those statements.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Communications and Television System Utility.

Lonnie G. Muxfeldt
Certified Public
Accountant

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In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manning Municipal Communications and Television System Utility as of December 31, 2011, and the changes in its financial position and its cash flow for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 9, 2012 on my consideration of Manning Municipal Communications and Television System Utility's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Communications and Television System Utility's basic financial statements. I did not previously audit the financial statements for the year ended December 31, 2010. Those financial statements were audited by other auditors, whose report dated May 20, 2011, expressed an unqualified opinion on those statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 M. J. Luppold Associate, CPA, P.C.

Management's Discussion and Analysis

Manning Municipal Communication and Television System Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 30, 2011. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2011 Financial Highlights

Operating revenues of the Utilities' activities increased 0.37%, or \$3,044, from 2010 to 2011.

Operating expenses decreased 23%, or \$127,585, from 2010 to 2011.

The Utility's net assets of business type activities increased 12%, or \$67,765 from 2010 to 2011.

Using This Annual Report

This annual report consists of a series of financial and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Financial Statements consist of a Statement of Net Assets - Proprietary Funds, and a Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds and a Statement of Cash Flows - Proprietary Funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Other Supplementary Information provides comparative financial data with the prior year.

Reporting the Utility's Financial Activities

Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used in most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all the Utility's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Utility's net assets changed during the most recent year. All changes in net assets are reported when the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future periods.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the following activity:

Business type activities including the cable utility, telephone utility and internet utility. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has one fund:

Proprietary funds account for the Utility's Enterprise Funds. These funds report services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The Enterprise Funds include the cable utility, telephone utility and internet utility, each considered to be a major fund of the Utility. The Utility is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

Basic Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the change in the net assets for business type activities.

Statements of Net Assets December 31, 2011 and 2010

Business Type Activities - Enterprise Funds

	<u>Year Ended</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 277,736	\$ 165,265
Capital assets	135,189	169,890
Total assets	<u>\$ 412,925</u>	<u>\$ 335,155</u>
Long-term liabilities	\$ 795,000	\$ 795,000
Other liabilities	102,046	92,041
Total liabilities	<u>\$ 897,046</u>	<u>\$ 887,041</u>
Net assets:		
Invested in capital assets,	\$ -0-	\$ -0-
Restricted	6,232	5,282
Unrestricted	(490,353)	(557,168)
Total net assets	<u>\$ (484,121)</u>	<u>\$ (551,886)</u>

Net assets of business type activities increased \$67,765, or 12% over the prior year. Unrestricted net assets had a deficit of \$490,353 at the end of this year. Unrestricted net assets can be used to finance day to day operations without constraints established by debt covenants, legislation or other legal requirements. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The amount invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt is shown as zero because the debt exceeds book value. The related debt is larger than the net capital assets due to the fact that principal payments have not been made on a large portion of the debt, yet accumulated depreciation continues to increase as fixed assets are depreciation over time. If the amount invested in capital assets were shown as a negative number, the unrestricted net assets would be overstated. The accumulated net operating losses for the past years have caused deficit net assets as of December 31, 2011 and 2010.

Changes in Net Assets for the Years Ended December 31, 2011 and 2010

Business Type Activities - Enterprise Funds

	<u>2011</u>	<u>2010</u>
Revenues:		
Charges for Services	\$ 813,303	\$ 810,259
Interest Income	588	862
Service & Reconnect Charges	11,145	28,865
Advertising Fees	5,400	6,230
Miscellaneous Fees	4,455	7,019
Signal Charges	21,000	19,940
Headend Rent	2,200	2,050
Total Revenues	<u>858,091</u>	<u>875,225</u>
Operating Expenses:		
Production	344,877	404,076
Rent	176,849	176,849
Depreciation	34,701	99,911
Administrative and General	210,030	272,405
Total Operating Expenses	<u>766,457</u>	<u>953,241</u>
Other Expenses:		
Loss on Disposal of Equipment	-0-	8,867
Interest	23,869	21,741
Total Other Expense	<u>23,869</u>	<u>30,608</u>
Increase (Decrease) in Net Assets	67,765	(108,624)
Net Assets Beginning of Year	<u>(551,886)</u>	<u>(443,262)</u>
Net Assets End of Year	\$ <u>(484,121)</u>	\$ <u>(551,886)</u>

Capital Assets

The Utility's capital assets include land, buildings and improvements, equipment, and other infrastructure. Capital assets for the business type activity totaled \$135,189 (net of accumulated depreciation) at December 31, 2011. There were no additions and \$40,395 of retirements to capital assets. Depreciation for the year was \$34,701.

<u>Capital Assets at Year End</u>			
		<u>2011</u>	<u>2010</u>
Headhouse	\$	61,972	\$ 64,630
Distribution		52,678	52,678
General		40,542	49,561
Internet		134,386	163,104
Telephone		847,523	847,523
Total		<u>1,137,101</u>	<u>1,177,496</u>
Less: Accumulated Depreciation		<u>(1,001,912)</u>	<u>(1,007,606)</u>
Net Capital Assets	\$	<u>135,189</u>	\$ <u>169,890</u>

Long-Term Debt

At December 31, 2011, the Utility had \$795,000 in total long-term debt outstanding for the business type activity.

Economic Factors Bearing on the Communication Utility's Future

The Utility's increase in net assets may be attributed to a turnover in management at the beginning of the year. Current management took no compensation which considerably reduced salary, payroll and health insurance expenses. Another factor was rate increases of 21% and 12% for residential and business local phone access, 6% for cable TV, and 2.5%, 4% and 6% for the platinum, gold and silver high speed internet services. The rate changes became effective April 15, 2011. The old rates were in effect since January 2010.

Landline usage continued to decline as both residential and business customers switched exclusively to cellular services. This was most evident in the Templeton area where switching rate fees declined 37.5% due to declining landline usage. The Utility is currently negotiating with Corn Belt, Templeton and Scranton Telephone Companies to provide cable television to the communities of Wall Lake, Lake View Templeton and Scranton.

Contacting the Communication Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Communication Utility's finances and operating activities. If you have questions about this report or need additional financial information, contact Manning Municipal Communications and Television System Utility, 719 Third Street, Manning, Iowa 51455.

BASIC FINANCIAL STATEMENTS

Exhibit A**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY****Statements of Net Assets
Proprietary Funds
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Assets		
Cash	\$ 191,922	\$ 68,588
Restricted Cash - Customer Deposits	6,232	5,282
Accounts Receivable - Customers - net of allowance	36,485	43,201
Accounts Receivable - Carrier Access Fees - net	23,140	21,108
Accounts Receivable - Miscellaneous	2,203	4,522
Inventory	14,466	19,341
Prepaid Expenses	3,288	3,223
Capital Assets (Net of Accumulated Depreciation)	135,189	169,890
Total Assets	<u>\$ 412,925</u>	<u>\$ 335,155</u>
Liabilities		
Accounts Payable - Operating	\$ 36,637	\$ 27,198
Deferred Income	26,979	25,541
Customer Deposits Payable	6,232	5,282
Accrued Wages and PTO Payable	5,494	3,513
Other Taxes Payable	3,915	5,016
Accrued Interest Payable	18,949	21,741
Real Estate Taxes Payable	3,840	3,750
Notes Payable (payable after one year)	795,000	795,000
Total Liabilities	<u>897,046</u>	<u>887,041</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	-0-	-0-
Restricted for:		
Customer Deposits	6,232	5,282
Unrestricted (Deficit)	<u>(490,353)</u>	<u>(557,168)</u>
Total Net Assets (Deficit)	<u>(484,121)</u>	<u>(551,886)</u>
Total Liabilities and Net Assets	<u>\$ 412,925</u>	<u>\$ 335,155</u>

See accompanying notes to financial statements

Exhibit B**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY****State of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues - Cable		
Basic TV	\$ 247,200	\$ 259,351
Movie Packages	15,092	14,033
TIVO	582	1,055
	<u>262,874</u>	<u>274,439</u>
Cost of Sales - Cable		
Signal charges	171,805	168,307
Billing Fees - MACC	343	2,917
	<u>172,148</u>	<u>171,224</u>
Net Operating Revenues - Cable	90,726	103,215
Operating Revenues - Telephone		
Local Access	156,957	141,234
Local Tolls	37,037	53,538
Carrier Access Fees	118,049	116,414
USAC Revenue	-0-	1,314
Calling Features	18,503	18,802
Cell Phone Plans	4,612	12,943
Cell Phones and Accessories	46	916
	<u>335,204</u>	<u>345,161</u>
Cost of Sales - Telephone		
Long Distance Switching Fees	29,221	34,198
Switching Fees - Templeton	61,000	88,000
Carrier Access Fees	11,262	10,800
Local Billing Fees	3,576	3,917
Subscriber Services	7,482	9,885
Billing Fees - MACC	343	2,917
Cell Phone Minutes	3,224	12,856
Cell Phones and Accessories	-0-	4,315
	<u>116,108</u>	<u>166,888</u>
Net Operating Revenues - Telephone	219,096	178,273

See accompanying notes to financial statements

Exhibit B
(Continued)

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Statements of Revenues, Expenses and Changes in Fund Net
Assets
Proprietary Funds
For Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues - Internet		
Unlimited Service	\$ 798	\$ 1,077
Unlimited Service on Contract	258	239
Ten Hour Plan	137	20
Cable Modem Income	173,353	151,458
Other Fees	9,725	8,950
Wireless Internet	21,114	19,075
Ethernet Income	9,840	9,840
	<u>215,225</u>	<u>190,659</u>
 Cost of Sales - Internet		
Internet Expenses	56,278	63,047
Billing Fees MACC	343	2,917
	<u>56,621</u>	<u>65,964</u>
 Net Operating Revenues - Internet	158,604	124,695
 Other Operating Revenues		
Advertising Fees - Channel 22	5,400	6,230
Miscellaneous	4,323	6,566
Hookup Fees	426	524
Reconnect Charges	2,409	2,492
Service Charges	8,736	26,373
Directory Fees - Phone Books	(294)	(71)
Signal charges - Templeton & Scranton	21,000	19,940
Headend Rent	2,200	2,050
Total Other Operating Revenues	<u>44,200</u>	<u>64,104</u>
 Net Operating Revenues Before Expenses	512,626	470,287
 Operating Expenses (Schedule 1)	<u>421,580</u>	<u>549,165</u>
 Net Operating Income (Loss)	91,046	(78,878)

Exhibit B
(Continued)

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Statements of Revenues, Expenses and Changes in Fund Net
Assets
Proprietary Funds
For Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Net Operating Income (Loss)	\$ 91,046	\$ (78,878)
Non-Operating Revenues (Expenses)		
Interest Income	588	862
Loss of Disposal of Equipment	-0-	(8,867)
Interest Expense	<u>(23,869)</u>	<u>(21,741)</u>
Total Non-operating Revenues (Expenses)	<u>(23,281)</u>	<u>(29,746)</u>
Change in Net Assets	67,765	(108,624)
Net Assets, Beginning (Deficit)	<u>(551,886)</u>	<u>(443,262)</u>
Net Assets, Ending (Deficit)	\$ <u>(484,121)</u>	\$ <u>(551,886)</u>

See accompanying notes to financial statements

Exhibit C**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY****Statements of Cash Flows
Proprietary Funds
For Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Customers and Users	\$ 815,275	\$ 797,438
Cash Received from Other Revenues	46,506	69,361
Cash Paid to Suppliers	(343,236)	(377,145)
Cash Paid for Personal Services	(252,642)	(289,665)
Cash Paid to Employees	<u>(116,497)</u>	<u>(167,864)</u>
Net Cash Provided by Operating Activities	149,406	32,125
Cash Flows from Noncapital Financing Activities:		
Change in Customer Deposits	<u>950</u>	<u>671</u>
Net Cash Provided by Noncapital Financing Activities	950	671
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	-0-	(12,885)
Interest Paid on Notes	<u>(26,660)</u>	<u>(26,661)</u>
Net Cash Used by Capital and Related Financing Activities	(26,660)	(39,546)
Cash Flows from Investing Activities:		
Interest on Investments	<u>588</u>	<u>862</u>
Net Cash Provided by Investing Activities	<u>588</u>	<u>862</u>
Net Decrease in Cash and Cash Equivalents	124,284	(5,888)
Cash and Cash Equivalents - Beginning of Year	<u>73,870</u>	<u>79,758</u>
Cash and Cash Equivalents - End of Year	\$ <u>198,154</u>	\$ <u>73,870</u>

See accompanying notes to financial statements

Exhibit C
(Continued)

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Statements of Cash Flows
Proprietary Funds
For Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income (Loss)	\$ 91,046	\$ (78,878)
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	34,701	99,911
(Increase) Decrease in Customer Accounts Receivable	6,716	(13,024)
(Increase) Decrease in Other Receivables	287	5,257
(Increase) Decrease in Inventories	4,875	5,863
(Increase) Decrease in Prepaid Expenses	(65)	8,673
Increase (Decrease) in Accounts Payable	9,439	293
Increase (Decrease) in Salaries Payable	1,980	(764)
Increase (Decrease) in Deferred Income	1,438	203
Increase (Decrease) in Other Payables	<u>(1,011)</u>	<u>4,591</u>
Net Cash Provided by Operating Activities	\$ <u>149,406</u>	\$ <u>32,125</u>
Reconciliation of Cash and Cash Equivalents at Year End		
To Specific Assets Included on the Statements of Net Assets:		
Current Assets:		
Cash and Pooled Investments	\$ 191,922	\$ 68,547
Restricted Assets:		
Cash and Pooled Investments:		
Customer Deposits	<u>6,232</u>	<u>5,323</u>
Cash and Cash Equivalents, End of Year	\$ <u>198,154</u>	\$ <u>73,870</u>

NOTES TO FINANCIAL STATEMENTS

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 1 Summary of Significant Accounting Policies

Nature of Business

The Manning Municipal Cable Board was established October 12, 1981, by the Manning City Council, for the purpose of designing, implementing, constructing, operating and maintaining the Manning Municipal Cable System, located in Carroll County and operating in the City of Manning, Iowa.

By vote of a special election held September 24, 1996, a municipal cable communication and television system utility was subsequently established on January 23, 1997. The Manning Municipal Cable Board formally transferred all of the Cable TV's assets, liabilities, retained earnings, powers, records and unfinished business at January 23, 1997, to the Manning Municipal Communications and Television System Utility (MMCTSU). With that action, all official records of the Manning Municipal Cable System were closed.

As of the transfer date, the MMCTSU Board acquired all powers as authorized by law and shall provide all services it deems necessary and convenient as permitted by law including, without limitation, video, voice, telephone, data, communication, interconnections and all other forms of communications, whether to date existing or yet to be developed as set forth in a resolution adopted by the Manning City Council on November 4, 1996.

The mission of MMCTSU shall be to develop and implement a comprehensive communications system incorporating the elements of telephony, cable television, broadband communications and any other technologies approved by the Utility Board.

The Utility's revenues are dependent upon the economic status of its customers. Collection policies have been established.

The Utility also collects carrier access fees from other telephone companies for the use of MMCTSU's telephone lines.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

Reporting Entity

MMCTSU is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board when determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility is governed by a five-member board of trustees appointed by the City Council. MMCTSU itself has no component units which meet the Governmental Accounting Standards Board criteria.

The financial statements include only those funds of MMCTSU and are not intended to present all funds of the City of Manning, Iowa.

Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility. Some Utility officials are member of the following boards: Manning Municipal Light Plant and the Manning Municipal Gas Department.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurements focus applied.

The Utility's financials statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accompanying financial statements have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when the liability is incurred.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

The proprietary fund of the Communication Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless the pronouncement conflicts with or contradicts GASB Pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing the delivered goods in connection with an Enterprise fund's principal ongoing operations. The principal operating revenues of the Communication Utility include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of Presentation

The Statement of Net Assets presents the Communication Utility's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets. MMCTSU'S outstanding debt attributable to capital assets exceeds the net capital assets. Therefore, the amount invested in capital assets, net of related debt, is shown at zero until such time that net capital assets exceeds related debt.

Restricted Net Assets result when constraints placed on net asset use are externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted to the City of Manning for approval in the City's budget process. The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2011, disbursements did not exceed amounts budgeted.

Cash and Cash Equivalents

Cash consists of money in checking and savings accounts. For purposes of the Statement of Cash Flows, the Utility considers all deposits to be cash equivalents.

Accounts Receivable - Customers

Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. The allowance for doubtful accounts is \$3,053 for 2011 and 2010.

The cable TV, phone, internet and TIVO bills are all generated by an outside company. The bills are sent out approximately on the 15th of each month and cover the long distance phone calls for the previous month and the cable TV, internet, tivo and local phone service for the next month. The customers have 20 days to pay their bills before a 1.5% penalty of the total bill get added to their accounts. Delinquent customers have a 10 day grace period before disconnection occurs. The reconnection fee is \$25.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

Accounts Receivable - Carrier Access Fees

Carrier access fees are fees due from various phone companies when MMCTSU's customers select another phone company for their long distance phone services. As of December 31, 2011 and 2010, no allowance for doubtful accounts for CABS was presented as all accounts were deemed collectible.

Various phone companies are billed by an outside Company on behalf of MMCTSU for long distance usage.

Inventory

Material and supplies are stated at average cost on a per item basis. Cost is determined by the first-in, first-out method.

Capital Assets

Capital assets include property, plant and equipment and they are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. Depreciation is computed over the following useful lives:

Land, Buildings, Improvements, Towers and Antennas	25-40 years
Earth Station, Electronics and Service Drops	10-15 years
Converters and Remotes	10 years
Traps and Other Equipment	5-15 years
Internet Equipment	5-10 years
Telephony Equipment	5-10 years

Capital asset activity for the year ended December 31, 2011 is summarized as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Capital Assets	\$ 1,177,496	\$ -0-	\$ (40,395)	\$ 1,137,101
Accumulated Depreciation	(1,007,606)	(34,701)	40,395	(1,001,912)
Net Capital Assets	\$ 169,890	\$ (34,701)	\$ -0-	\$ 135,189
Depreciation Charged				\$ 34,701

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments that materially extend the life of an asset are capitalized.

The cost and related accumulated depreciation on capital assets sold or retired are eliminated from the accounts at the time of disposal and the resulting gain or loss is reflected in other revenue (expense).

Customer Deposits

Customer deposits are collected from new customers before service commences. Any customer that can not provide a credit letter from a previous utility is charged a \$50 deposit. Customers in good standing receive a full refund of their deposit after six months of service.

Operating Revenues

Cable TV revenues are based on billing rates for subscriber fees to cable television. These subscriber fees are normally collected one month in advance.

Internet fees are billed to customers by MMCTSU one month in advance. As of January 1, 2008, Templeton Telephone Co. and Iowa Network Services provide dial up internet access and related services to MMCTSU. High speed internet access is provided by MMCTSU.

Local access telephone fees are billed one month in advance whereas long distance toll services are billed out after the calls occur. Carrier access fees are also billed to the various Long Distance Carriers for their line access charges after the charges are incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that offset certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 2 Deposits

The Utility's deposits at December 31, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's cash at December 31, 2011 is as follows:

Restricted - Customers Deposits	\$	6,232
Unrestricted		191,922
	\$	<u>198,154</u>

Note 3 Related Party Transactions

Joint Use Agreement

On July 25, 2001, the Manning Municipal Light Plant and MMCTSU entered into a joint agreement regarding a communications distribution system. The communications distribution system is and shall remain the sole property of the Electric Utility. However, the Communications Utility has been granted the right to use the distribution system, the headend building, and the Municipal building for its functions for a term of 25 years. The Communication Utility is required to pay \$170,849 every year for 25 years. The first payment was made on June 30, 2002. During the year ended December 31, 2008, the Utility requested a received a one-year moratorium on the annual lease payment of \$170,849.

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Notes to Financial Statements
December 31, 2011**

Note 3 Related Party Transactions (Continued)

Other

The Utility had business transactions between the Utility and Utility officials totaling \$562 and \$522 during the years ended December 31, 2011 and 2010.

Beginning June 1, 2007, MMCTSU paid \$500 rent per month to the City of Manning for office space. Total rent paid to the City of Manning for 2011 and 2010 was \$6,000 per year.

Note 4 Related Party – Notes Payable

Note Payable to Manning Municipal Light Plant in the original amount of \$500,000 to be used for the broadband communications system. The interest rate is adjusted annually on July 1st of each year to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. The interest rate on July 15, 2011 was 2.25% and the interest rate on July 15, 2010 was 2.50%. The Communication's net revenues shall be pledged to pay off amounts due as allowable.

2011

2010

\$ 295,000 \$ 295,000

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 4 Related Party – Notes Payable (Continued)

	<u>2011</u>	<u>2010</u>
Note Payable to Manning Municipal Gas Department in the amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 15 th of each year to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. The interest rates on July 15, 2011 and 2010 were 2.25% and 2.50%, respectively. The Communication's net revenues shall be pledged to pay off amounts due as allowable.	\$ <u>500,000</u>	\$ <u>500,000</u>

These notes payable to Manning Municipal Light Plant and Manning Municipal Gas Department do not have a specific payoff schedule. Payments made depend upon the net revenues of the Communication Utility. In 2004, the Manning Municipal Light Plant forgave \$200,000 of its note to the Communication Utility.

Note 5 Contract Commitments

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for video signal. TTC obtains a cable television signal from MMCTSU for transmission via TTC's Cable Television System subject to certain terms and conditions. MMCTSU is currently charging TTC \$1,400 per month for video signal.

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for switching services. TTC is a local telecommunications carrier with a particular expertise in the provision of certain switching functions and feature applications for the transmission, reception, monitoring, and routing of telecommunications traffic. The five year agreement required monthly fees of \$8,000 and continued until a new three year agreement was negotiated for \$5,000 per month. The new agreement became effective December 1, 2011 and expires November 30, 2014.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 5 Contract Commitments (Continued)

In 2005, MMCTSU entered into a Video Signal Agreement with Scranton Telephone Company (STC). STC is a telecommunications company that provides cable television service to its customers in the Scranton franchise areas. STC obtains a cable television signal from MMCTSU for transmission via STC's cable television system subject to the terms and conditions spelled out in the agreement. The agreement shall continue in full force and effect until January 1, 2015. The rate for this video signal is a monthly charge of \$250.

Effective December 1, 2006, the Communication and Information Services Agreement between Long Lines and MMCTSU was terminated. MMCTSU agreed to pay Long Lines \$30,000 in exchange for a general release of all claims of Long Lines relating to the agreement. Upon termination of the agreement, Long Lines had the option to either remove its related equipment from its present location in the Utilities' building or pay MMCTSU \$200 per month rent for the facility and \$50 for fiber lease. Long Lines opted to continue using the facility, however, they were exempted from the agreed upon rent of \$200 per month until July 2009.

Iowa Network Services, Inc. (INS) offers a switching and transport agreement to MMCTSU for both originating and terminating traffic, which virtually extends the MMCTSU's network from the point where it interconnects with the INS network to the meet point of the Commercial Mobile Radio Service (CMRS) provider. This enables MMCTSU to originate traffic to and receive wireless traffic from any CMRS provider. This agreement shall have an initial term of two years. It shall thereafter remain in full force and effect for successive terms of two years each, subject to the right of either party to give the other party written notice of its intent to terminate the agreement not less than 120 days prior to the expiration of the then current term. The initial term started in December 2006.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 5 Contract Commitments (Continued)

MMCTSU also has a consolidated billing agreement with Iowa Network Services (INS), which was signed in December 2006. INS will perform monthly settlements for reciprocal compensation traffic measurements, bill issuance, bill consolidation, bill collection service and disbursement of the net amounts due per contract terms, between MMCTSU and CMRS providers. This agreement shall remain in effect until cancelled by either party by written notice to the other party of not less than 120 days.

An agreement for Internet Service was entered into and made effective December 15, 2007 between Templeton Telephone Company (TTC) and Manning Municipal Communications and Television Service Utility (MMCTSU). TTC's network is connected to Iowa Network Service Utility (INS) network at a point of presence located at Templeton, Iowa. TTC agrees to lease to MMCTSU 35MB of bandwidth to transport internet traffic between MMCTSU's wireless network and the INS network. The agreement shall continue in full force for a term of three years from the date the leased bandwidth is first provided and shall automatically renew for additional one year terms unless terminated by either party giving written notice at least ninety (90) days prior to the expiration. The monthly rate to be paid to TTC for the bandwidth is \$2,843.

In connection with the Internet Service Agreement with TTC, MMCTSU also needed to enter into a Virtual ISP Internet Services Reseller Agreement with Iowa Network Services, Inc. (INS). This would allow MMCTSU to resell INS' wholesale internet access service to current and prospective MMCTSU subscribers. MMCTSU will pay INS a set fee per customer (currently \$7.50 per month) and then MMCTSU can resell the wholesale accounts to their retail customers at whatever fee they shall choose. This contract shall be for a term for one year beginning December 15, 2007 and shall continue on a month-to-month basis thereafter.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 6 Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Through June 30, 2011, plan members were required to contribute 4.50% of their annual salary and employers were required to contribute 6.95% of annual payroll. As of July 1, 2011, IPERS contribution rates increased to 5.38% for members and 8.07% for employers. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended December 31, 2011 and 2010 were \$5,925 and \$8,845 respectively, which was equal to the annual required contributions.

Note 7 Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retirees benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums of the Utility and plan members are \$753 for family coverage and \$289 for single coverage. The same monthly premiums would apply to retirees if there were any retired participants. For the year ended December 31, 2011, the Utility contributed \$11,254 and plan member eligible for benefits contributed \$1,250, 90 percent and 10 percent, respectively.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Notes to Financial Statements December 31, 2011

Note 8 Compensated Absences

As of January 1, 2005, MMCTSU adopted a new paid time-off (PTO) policy for eligible employees to use for vacation, illness and personal business. It combined traditional vacation and sick leave plans into one flexible, paid time-off policy. Under the new PTO policy, MMCTSU's liability is limited to 240 hours which is the maximum number of hours that can be accrued and paid out upon termination. After an employee accumulates 240 hours, the remaining hours roll into a Long Term Bank (LTB). The LTB hours are not paid out upon termination and are capped at 960 hours.

The PTO is paid at the employee's base rate of pay at the time of absence. In the event that available PTO is not used by the end of the benefit year, employees may carry up to 240 hours to the next benefit year. The hours in the LTB can only be used for family or personal illness and all regular PTO hours must be used before using LTB hours.

The accumulated liability for PTO totaled \$3,681 and \$1,865 as of December 31, 2011 and 2010, respectively.

Note 9 Risk Management

MMCTSU is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 10 Deficit Balances

MMCTSU had fund deficits of \$484,121 and \$551,886 for the years ended December 31, 2011 and 2010, respectively. The ability of MMCTSU to continue operating as an independent entity requires that the issues resulting in continued losses be addressed by management.

REQUIRED SUPPLEMENTARY INFORMATION

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Budgetary Comparison Schedule of Revenues, Expenses and
Changes in Fund Net Assets – Budget and Actual (Cash Basis)
Proprietary Funds
For the Year Ended December 31, 2011**

	<u>Accrual Basis</u>	<u>Accrual Adjustment</u>	<u>Cash Basis</u>
Receipts			
Charges for Services	\$ 813,303	\$ 1,972	\$ 815,275
Non-operating	44,788	3,256	48,044
Total Receipts	<u>858,091</u>	<u>5,228</u>	<u>863,319</u>
Expenditures			
Cost of Services	344,877	(1,641)	343,236
Operating Expenses	421,580	(52,441)	369,139
Non-operating	23,869	2,791	26,660
Total Expenditures	<u>790,326</u>	<u>(51,291)</u>	<u>739,035</u>
Net Change in Net Assets	67,765	\$ <u>(56,519)</u>	\$ <u>124,284</u>
Net Assets (Deficit) at Beginning of Year	<u>(551,886)</u>		
Net Assets (Deficit) at End of Year	\$ <u>(484,121)</u>		

See accompanying independent auditor's report

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Budgetary Comparison Schedule of Revenues, Expenses and
Changes in Fund Net Assets – Budget and Actual (Cash Basis)
Proprietary Funds
For the Year Ended December 31, 2011**

Original And Final <u>Budget</u>	Final to Actual <u>Variance</u>
\$ 815,360	\$ (85)
<u>65,050</u>	<u>(17,006)</u>
880,410	(17,091)
411,262	68,026
423,809	54,670
<u>26,660</u>	<u>-0-</u>
861,731	122,696
\$ <u>18,679</u>	\$ <u>105,605</u>

**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY**

**Notes to Required Supplementary Information
Budgetary Reporting
For the Year Ended December 31, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, MMCTSU annually adopts a budget, which is submitted to the City for approval in the City's budget process. The annual budget may be amended during the year utilizing statutorily prescribed procedures. All MMCTSU's disbursements are included in business-type activities function. During the year ended December 31, 2011 there were no amendments to the budget and disbursements did not exceed amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY****Schedule of Operating Expenses
For Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Expenses		
Accounting	\$ 6,425	\$ 5,700
Advertising	163	759
Bad Debts (Recoveries)	-0-	(910)
Cable Modems	4,857	2,784
Depreciation	34,701	99,911
Dues and Subscriptions	4,244	3,839
Employee Insurance	9,895	20,039
Headhouse - Maintenance	1,501	3,022
Headhouse - Other	2,125	310
Insurance	13,085	12,813
Legal Publication	940	1,436
Legal and Professional Services	1,396	6,876
Maintenance - Tower	-0-	94
Miscellaneous	1,584	3,430
Payroll Taxes & Retirement	12,133	14,675
Postage	4,243	4,430
Property Taxes	3,562	3,835
Rent - Distribution System	170,849	170,849
Rent - Office Space	6,000	6,000
Seminars and Meetings	-0-	1,245
Small Tools	69	433
Software Maintenance	12,401	13,612
Supplies - General	14,033	5,813
Supplies - Office	60	-0-
Telephone	5,450	4,949
Trustee Fees	2,995	2,995
Uniforms	-0-	297
Utilities	15,798	17,747
Vehicle Expense	3,760	5,461
Wages	85,915	132,386
Wireless Internet Expense	3,396	4,335
Total Operating Expenses	\$ <u>421,580</u>	\$ <u>549,165</u>

See accompanying independent auditor's report

Schedule 2**MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY****Schedule of Capital Assets and Accumulated Depreciation
For Years Ended December 31, 2011 and 2010**

	Capital Assets			
	December 31, 2010	Additions	Retirements	December 31, 2011
Headhouse				
Building	\$ 8,825	\$ -0-	\$ -0-	\$ 8,825
Electronics & Equipment	55,805	-0-	2,658	53,147
	<u>64,630</u>	<u>-0-</u>	<u>2,658</u>	<u>61,972</u>
Distribution				
Service Drops	25,219	-0-	-0-	25,219
Converters & Remotes	15,196	-0-	-0-	15,196
Traps	12,263	-0-	-0-	12,263
	<u>52,678</u>	<u>-0-</u>	<u>-0-</u>	<u>52,678</u>
General				
Office furniture	10,220	-0-	4,047	6,173
Vehicles	5,087	-0-	-0-	5,087
Equipment	19,816	-0-	3,938	15,878
Internet	14,438	-0-	1,034	13,404
	<u>49,561</u>	<u>-0-</u>	<u>9,019</u>	<u>40,542</u>
Internet				
Equipment	149,753	-0-	28,718	121,035
Building	8,684	-0-	-0-	8,684
Vehicles	4,667	-0-	-0-	4,667
	<u>163,104</u>	<u>-0-</u>	<u>28,718</u>	<u>134,386</u>
Telephony				
Building	8,684	-0-	-0-	8,684
Vehicles	20,535	-0-	-0-	20,535
Equipment	806,471	-0-	-0-	806,471
Electronics	11,833	-0-	-0-	11,833
	<u>847,523</u>	<u>-0-</u>	<u>-0-</u>	<u>847,523</u>
Totals	\$ <u>1,177,496</u>	\$ <u>-0-</u>	\$ <u>40,395</u>	\$ <u>1,137,101</u>

See accompanying independent auditor's report

Schedule 2**(Continued)****MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY****Schedule of Capital Assts and Accumulated Depreciation
For Years Ended December 31, 2011 and 2010**

<u>Useful Lives</u>	<u>Accumulated Depreciation</u>			<u>December 31, 2011</u>
	<u>December 31, 2010</u>	<u>Current Provision</u>	<u>Retirements</u>	
40 years	\$ 1,329	\$ 226	\$ -0-	\$ 1,555
10-15 years	40,374	4,656	2,658	42,372
	<u>41,703</u>	<u>4,882</u>	<u>2,658</u>	<u>43,927</u>
15 years	14,870	1,681	-0-	16,551
10 years	5,796	1,258	-0-	7,054
5 years	12,262	-0-	-0-	12,262
	<u>32,928</u>	<u>2,939</u>	<u>-0-</u>	<u>35,867</u>
5-10 years	8,988	388	4,047	5,329
5 years	4,971	117	-0-	5,088
5-15 years	15,130	1,140	3,938	12,332
5-10 years	14,438	-0-	1,034	13,404
	<u>43,527</u>	<u>1,645</u>	<u>9,019</u>	<u>36,153</u>
5-10 years	98,578	10,904	28,718	80,764
39 years	1,308	223	-0-	1,531
5 years	4,550	117	-0-	4,667
	<u>104,436</u>	<u>11,244</u>	<u>28,718</u>	<u>86,962</u>
39 years	1,308	223	-0-	1,531
5 years	20,419	117	-0-	20,536
5-10 years	752,618	13,174	-0-	765,792
7 years	10,667	477	-0-	11,144
	<u>785,012</u>	<u>13,991</u>	<u>-0-</u>	<u>799,003</u>
	<u>\$ 1,007,606</u>	<u>\$ 34,701</u>	<u>\$ 40,395</u>	<u>\$ 1,001,912</u>

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Prepared in Accordance with
*Government Auditing Standards***

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

March 9, 2012

Lonnie G. Muxfeldt
Certified Public
Accountant

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**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Prepared in Accordance with *Government Auditing
Standards***

To the Board of Trustees of the
Manning Municipal Communications
and Television System Utility

I have audited the accompanying financial statements of the Manning Municipal Communications and Television System Utility as of and for the year ended December 31, 2011, and have issued my report thereon dated February 9, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Manning Municipal Communications and Television System Utility's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manning Municipal Communications and Television System Utility's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Manning Municipal Communications and Television System Utility's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control over financial reporting I consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Communications and Television System Utility's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Findings as Item A to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Findings as Item B to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manning Municipal Communications and Television System Utility's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2011, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Manning Municipal Communications and Television System Utility's written responses to findings in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the Utility's responses, I did not audit the Utility's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Manning Municipal Communications and Television System Utility and other parties to whom the Utility may report. This report is not intended to be should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Manning Municipal Communications and Television System Utility during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy & Associates, CPA, P.C.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Schedule of Findings Year Ended December 31, 2011

Part I Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Currently, one employee has custody of receipts and performs all record-keeping pertaining to receipts for the Utility, including reconciliations and maintaining the accounts receivable records.

Recommendation - I realize that a segregation of duties is impossible with only one office employee. Operating procedures should be monitored by management and the board of trustees to obtain the maximum internal control possible under the circumstances.

Response - Due to the limited number of staff available to perform these duties, options available are limited. However, we will continue to monitor procedures to compensate for this weakness in internal control over financial reporting.

Conclusion - Response accepted.

- (B) Error and Omission - It was noted during routine testing procedures that \$8,767 of commercial insurance was posted to the wrong accounts and \$2,890 of October depreciation was omitted. The error and omission were subsequently corrected.

Recommendation - Greater care should be exercised when selecting expense accounts from the drop down screen to avoid mispostings. A full twelve months of depreciation should be expensed.

Response - Procedures will be reviewed and revised as necessary to ensure depreciation is posted and account selections are correct.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Schedule of Findings Year Ended December 31, 2011

Part II Other Findings Related to Required Statutory Reporting:

- 1) Certified Budget - The Utility's budget is filed as part of the City of Manning's budget. The disbursements during the year ended December 31, 2011, did not exceed amounts budgeted by the Manning Municipal Communications and Television System Utility.
- 2) Questionable Disbursements - I noted no disbursements that did not meet the requirements of public purposes as defined in an Attorney General's opinion dated April 25, 1979.
- 3) Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Wendel Kahl - Technical Advisor	Consulting	\$ 300
Swearingen Auto Repair - Spouse of Office Manager	Vehicle Service	\$ 562

- 4) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with the minimum statutory provisions required. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 5) Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.
- 6) Deposits and Investments - I noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.
- 7) Telecommunication Services - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

NEWS RELEASE

MANNING MUNICIPAL COMMUNICATION AND TELEVISION SYSTEM UTILITY

MANNING, IOWA 51455

Muxfeldt Associates, CPA, P.C. of Harlan, Iowa today released an audit report on the Manning Municipal Communication and Television System Utility.

Muxfeldt Associates, CPA, P.C, reported that the Utility's revenue totaled \$858,091 for the year ended December 31, 2011, a 1.9% decrease from 2010. The revenues included \$262,874 in cable TV revenue, \$335,204 in telephone revenue, \$215,225 in internet revenue, \$44,200 in other revenue and \$588 in interest income.

Expenses for the year totaled \$790,326, a 17 percent decrease from 2010. The expenses included \$344,877 for production, \$210,030 for administration and general expenses, \$176,849 for rent, \$34,701 for depreciation and \$23,869 for interest expense.

A copy of the audit report is available for review in the office of the Manning Municipal Communication and Television System Utility, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports.htm>.

